Observations of CRISIL on Banking System

1013. SHRI PARMESHWAR KUMAR AGARWALLA: Will the Minister of FINANCE be pleased to state:

(a) whether Government are aware of the observations of CRI SIL that the asset quality continues to be the main handicap of Indian Banking system;

(b) if so, what are the other observations made by CRISIL; and

(c) what are Government's comments on the observations?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL): (a) In an analysis of the key risk factors impacting rating of Indian Banks, the Credit Rating Information Services of India Limited (CRISIL) have observed that *it* considers asset quality to be the main handicap of the Indian Banking system.

(b) The same analysis while noting that Indian Banks still have a long way to go in upgrading credit risk management systems also takes note of the strengths of the sector such as a strong liquidity profile, limited vulnerability to external capital flows and the likelihood of support to public sector banks arising from Government ownership.

(c) Government as the owner or the majority shareholder and RBI as a regulator are confident that with the provisoning requirements being continuously tightened and other prudential norms being made more rigorous, as well as the increased awareness of the importance of an improved asset quality by the bank management's, the health of the Indian banking system is fundamentally sound. One significant aspect which should be noted is that in the classification of assets the extent of provision is *not* netted out as is being done in other countries and hence figures of gross NPAs, which is often taken adverse note of, includes a significant component for which provisions are held by the banks.